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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

MAR 11 1976

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The Honorable Stephen M. DuBrul, Jr.
President and Chairman
Export-Import Bank of the *AGC 00170*
United States

Dear Mr. DuBrul:

As you know, we have recently completed our audit of Eximbank's fiscal year 1975 financial statements. During the course of the audit we noted the following matters which if adopted could improve Eximbank's management.

- (1) Implementation of a long-range automatic data processing (ADP) plan,
- (2) Establishment of both an offsite storage for backup computer files and programs and a disaster recovery plan, and
- (3) A requirement that banks provide more timely transfer of deposits.

Although these matters did not affect our opinion on the financial statements and were not included in our letter to the Board of Directors, we are taking this opportunity to bring them to your attention. We also urge you to reconsider the suggestion for the establishment of an internal audit staff made to Eximbank in our February 25, 1975, management letter.

ADP COMPUTER STEERING COMMITTEE
AND LONG-RANGE ADP PLAN NEEDED

The Bank's ADP operations have continued to expand to include such functions as economic analyses, and the cost of ADP resources has increased each year from about \$258,000 in 1972 to about \$386,000 in 1975 with an additional increase of about \$10,000 budgeted for 1976. The importance of an effective and efficient ADP system to the Bank's operations, and the sizable investment in ADP resources, suggests the need for the formal development of a long-range ADP plan. The plan for future system development efforts should include

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- (1) Objectives
- (2) Manpower requirements
- (3) Personnel responsible for system development, programing, testing, and data conversion; and
- (4) Estimated completion dates for segments of development.

A Steering Committee with the active participation of top management and user management is a necessary prerequisite to preparing a long-range ADP plan to ensure that Eximbank obtains optimum benefits from its ADP resources. We continue to believe that ~~an ADP Steering Committee should be established as recommended in our February 25, 1975, management letter,~~ to initiate, guide, and review Eximbank's data processing needs.

A formal long-range ADP plan prepared by the Steering Committee and coordinated with Eximbank's long-range objectives would lead to projects having clear objectives, well-defined responsibilities, and end products which meet overall objectives.]

NEED FOR OFFSITE STORAGE
FACILITIES AND DISASTER RECOVERY PLAN

Eximbank does not maintain offsite storage facilities for backup computer data files and computer programs. Because all source documents and computer files are at the Bank's headquarters, a fire or other disaster could present problems for the continued day-to-day operation of Eximbank.

The ability to recover quickly from the destruction of computer programs and data files is vital to an ADP security program. Responsible management personnel from both the data processing area and the user departments must cooperate jointly in determining which information, procedures, and computer systems are important to the Bank.

266 [We recommend that a recovery plan be developed and responsibilities assigned for maintaining the recovery procedures. It is essential that the necessary materials-- data files, programs, supporting software, and operating instructions--be identified and stored in an offsite location physically removed from the Bank itself. The location should provide safety from natural disasters and from such

catastrophes as fire, explosion, or other accidents that might occur at the installation. Access to the offsite location must be controlled, and all material there must be carefully maintained so that it is current and ready for use at all times.

POTENTIAL FOR REDUCING
INTEREST EXPENSE

We believe that Eximbank is incurring unnecessary interest expense due to the time lapse between the deposit of obligor loan payments in commercial banks and the time Eximbank becomes aware the funds are available and can use them to meet loan commitments or to reduce borrowings.

Prior to May 1975, Eximbank required commercial banks to transfer on receipt all obligor payments over \$100,000 to the Federal Reserve for credit to Eximbank's Treasury account. A test of all activity in Eximbank's three largest commercial accounts for March 1975 showed that 20 payments over \$100,000 each, totaling \$8 million, remained in the accounts 1 day or more and averaged 3 days before transfer to the Treasury and that all payments over \$20,000 each, totaling \$12 million, remained in the accounts an average of 3 days. Although we made no precise determination of the reduction of interest expense which could have been achieved had all payments over \$20,000 been transferred to Treasury upon receipt during fiscal year 1975, we estimate that additional expense incurred could have totaled as much as \$200,000. Our estimate is based on the results of our sample, the total obligor payments of \$390 million that flowed through the commercial banks during the fiscal year, and Eximbank's average cost of money of about 7 percent for the year.

In May 1975, Eximbank instructed commercial banks to transfer all obligor payments over \$20,000 to the Federal Reserve Bank on the day received. An analysis of deposits over \$20,000 in all commercial accounts from July 1975 through January 1976 was made by Eximbank and tested by us. This analysis showed that the estimated interest lost during each of the 7 months due to the time lapse between deposit in the commercial accounts and credit to Eximbank's Treasury account fluctuated widely, from a low of \$3,400 to a high of \$14,700. The loss for these 7 months totaled \$68,100, with a projected annual loss of \$116,800.

While action taken in May 1975 appears to have resulted in improvement in the time lapse of the transfer of funds to Eximbank's Treasury account, we believe that the significant amount of interest still being lost indicates that commercial banks are not fully complying with the instructions. Accordingly, we recommend that Eximbank take appropriate followup action to insure that commercial banks are complying with existing instructions for the timely transfer of funds and explore other methods of reducing the time lapse, such as direct deposit.

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ESTABLISHMENT OF INTERNAL AUDIT STAFF
AND CREATION OF ACCOUNTING MANUAL

Eximbank's response to our February 1971 management letter stated that lack of manpower precluded the establishment of an internal audit staff and the preparation of an accounting manual in the immediate future. We understand that steps have been taken to prepare an accounting manual, but no resources have been allocated for an internal audit staff. We continue to believe that Eximbank should establish an internal audit staff.

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An internal audit staff would give management a useful means of gathering timely information needed for decision-making, especially if it were authorized to audit external Bank operations, such as the Foreign Credit Insurance Association.

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We are sending copies of this report to the Director, Office of Management and Budget; House and Senate Committees on Government Operations, and Appropriations; House Committee on Banking and Currency; and Senate Committee on Banking, Housing, and Urban Affairs.

Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal Agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and the House and Senate Committees on Appropriations with the Agency's first request for Appropriations made more than 60 days after the date of the report. We would appreciate receiving a copy of the statement sent to the Committees.

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We will be happy to discuss any of these matters with you and to provide additional information to assist you.

Thank you for the cooperation and courtesy extended to us during our annual audit. As in prior years, we received outstanding cooperation and assistance from the entire Bank staff.

Sincerely yours,

J. K. Fasick
J. K. Fasick
Director

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